KENYA MARKETS TRUST

Better Markets, Better Lives

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ADVISORY OPINION TO KENYAN GOVERNMENT AND DEVELOPMENT PARTNERS ON IMPACT OF COVID-19 TO KMT'S SUPPORTED SECTORS

Introduction

The ongoing covid-19 epidemic has thrown governments and global economies into disarray. With the focus on keeping populations healthy, nations are enforcing stringent measures that have led to markets, businesses and economic sectors being adversely affected. Well-functioning markets are the backbone for thriving economies, which support the sustenance and livelihoods of their populations. Any disruption in the supply chain of a sector is bound to have an impact on the business activities of the market players more so to the vulnerable actors in the chain. Business spending choices, similar to that of consumers, are now more heavily dependent on current conditions rather than future plans or need to invest in the business.

This advisory note seeks to highlight the possible threats that the coronavirus pandemic presents to the sectors we work in i.e. agricultural inputs, livestock and water services. It also provides expert opinion to the Government of Kenya and development partners on potential approaches that can be taken to mitigate the adverse effects to these sectors. In a rapidly changing situation, we note that a number of these key actions will continue to evolve and we must act fast and in real-time to respond effectively.

The government's inevitable containment efforts of COVID-19 have included quarantines, curfews, widespread restrictions on labour mobility, travel and social distancing, all of which are causing disruptions to market systems. However, these containment efforts are important to protect the lives of people and explicitly recognise the difficult trade-offs that the government is having to make. Kenya as with other countries will need to adopt a mix of interventions based on an analysis of the local situation and context, with containment as a major pillar.

Out of these, the restrictions on free movement of people, goods and services – a key enabler in any market – is bound to have the greatest impact on businesses. Many of the market actors' activities cannot be conducted from home and often involve social interactions in market places.

The containment measures are therefore going to have huge ramifications on producers, buyers, consumer and sellers in the three sectors and consequently vulnerable households that depend on the markets for their livelihoods.

Many of these vulnerable households who live from hand to mouth comprise a major part of the population in all the sectors.

The main challenge in Kenya currently is that there are no systems to identify and cushion these populations. Total lockdown therefore portends potential for chaos and a surge in civil unrest and crime. While we understand and appreciate the efforts to slow this pandemic, we also must recognise that our people must have access to food and other essential services, and therefore, our economy must be able to manufacture, transport and sell essential goods & services in a measured way. Thus, all containment measures should;

- Enhance social safety nets & emergency food measures,
- Keep food and other essential supply chains moving and
- Support smallholders to increase production.

However, amidst this unique challenge, Kenya is endowed with an entrepreneurial, innovate and resilient community that can turn unprecedented crisis into opportunity. It is worth noting that Kenya is the technology hub of East and Central Africa with significant mobile and internet penetration coupled with a high level of financial inclusion (with mobile money e.g. M-PESA). There is therefore a huge opportunity to utilize the existing architecture to apply innovative models to supply chain issues and prevent collapse.

What is the potential economic impact of COVID-19 on Kenya?

Kenya has maintained stable and consistent economic growth for the past six years. A statement released on March 23, 2020 by the Central Bank of Kenya indicated that the overall inflation is expected to remain within the target in the near term, reflecting lower food prices, with favourable weather conditions, a decline in international oil prices and muted demand pressure.

However, due to the looming COVID-19 situation at the time, the committee noted that economic growth was expected to decline significantly in 2020 from a baseline of 6.2 per cent to possibly 3.4 per cent because of reduced demand by Kenya's main trading partners, disruption of supply chains and resultant reduced domestic production.

It is evident from the above statement that individuals, households, small and medium-sized enterprises and corporations will be affected both in the short and long-term. It is already estimated that 20,000 formal jobs may be lost while the informal sector that support 83% of those employed individuals will see negative growth as demand weakens further with declining incomes.

Similarly, Kenya recorded the highest ever diaspora remittance in 2019 at KES 285.5 billion; this was the single largest foreign currency earner in 2019 and many households depend on it. Due to the global nature of this pandemic and its impact, diaspora remittances are expected to reduce significantly.

Evidently, the COVID-19 crisis has and continues to threaten livelihoods and access to food for those who have lost jobs and incomes.

This crisis aggravates the problem of food insecurity and threatens the achievement of the SDGs. Kenya is already food insecure and a net importer of its staple foods such as maize, un-milled wheat and wheat flour, rice and sugar and meat valued at over Ksh 210 billion in the period January-December 2019. A global crisis such as this overexposes the country and makes it very vulnerable.

Response

Our response to this pandemic takes the perspective of a short, medium and long-term approach[1]. Also, our analysis of implications would differ depending on different scenarios of what 'short term' means in terms of duration as well as degree of restrictions imposed on movement of people and products.

Short term: the focus is on risk mitigation and fixing the immediate issues/ addressing immediate needs. Additionally, stakeholders should, to the extent possible, put in place short-term measures that take a systemic approach and protect the elements of the system needed for normal longer-term functioning (i.e. so that once the crisis is over the sectors/system can be easily be rebuilt)

Medium term: Kenya needs to invest in measures to raise productivity in agriculture and livestock for self-reliance. Different stakeholders should have a conversation with the government to develop a sector wide plan to address this. Part of this would be raising productivity, but there might be more fundamental parts of the system to fix.

Long-term: This crisis highlights the need to build resilient sectors and economics systems. In the long-term, as we recover from the C-19 crisis and rebuild the economy, it will be important to consider mechanisms and buffers that can adequately respond to future risks and shocks.

In view of the above, the following section provides a synopsis of effects and mitigation measures for the three (3) sectors supported by KMT

[1] short-term is during the course of C-19 when lockdown or restricted movement orders are in effect. Medium term is once restrictions are lifted and until normal functioning of the economy/ market systems are rebuilt and long term is post COVID-19 scenario.

Livestock Sector

Livestock contributes an estimated 40 per cent to Kenya's agricultural GDP and employs about 50 per cent of the agricultural labour force in the country, with an estimated 10 million Kenyans largely deriving their livelihoods from the sector. Domestic demand for meat has been strong and the industry's ability to meet demand is compromised, with an annual shortfall in domestically-sourced beef production of over 300,000MT.

Being a meat deficit country, Kenya fulfils her demand through imports from neighbouring countries. With most East African countries currently closing their borders e.g. Ethiopia, Uganda, etc. the supply chain will be disrupted and if the outbreak persists, shortage of meat will be a major consequence.

Internally, movement of people, livestock and livestock products has also been hampered with the travel restrictions in place.

About 10 million Kenyans, mainly living in the arid and semi-arid lands, depend on livestock for their livelihoods. They have also been the most vulnerable to vagrancies of weather. Therefore, the impact of the above containment measures on the industry cannot be overemphasized and has high impact on the livestock sector.

- **Implication**: Slow activity in major livestock markets
  All major markets, which are points of convergence for producers and buyers, are expected to record lower numbers of livestock trade. This would affect the income of producers, aggregators, middlemen and transporters in the live animal supply chain.

  With the current order on social distancing, the markets may have to be closed indefinitely hence affecting livelihoods of more than 10 million Kenyans who depend on it. Such households are likely to face challenges in procuring food and other essential services. This may also result in shortage of meat in the market for consumption.

  Mitigation: National and county governments should develop mechanisms such as structured and supervised operation of markets that would allow the live animal market to operate whilst still maintaining the prescribed precautionary measures. In the case of a full-blown lockdown, where market operations are fully hampered, counties, national government and development partners could support off-take programmes and redistribute the same product to the populace. Additionally, the government should use this opportunity to explore finishing and fattening, as well as traceability for food safety and safeguarding exports in future.

- **Implication:** Suspension of international flights
  Already, Saudi Arabia has cancelled meat exports from Kenya and the suspension of international flight from March 25, 2020 has hugely affected the

country's export capacity to other remaining destinations since they have been using passenger flights for these. This will affect the income of the Kenya Meat and Livestock Export and Import Council (KEMLEIC), its suppliers and other service providers.

Mitigation: County and national governments to engage KEMLEIC to find ways of ensuring export to other destinations is not lost. Additionally, government and other stakeholders can spur local consumption to reduce the meat deficit gap and invest in cold chain. This could provide the opportunity to catalyse modernisation of the sector. In the worst-case scenario, government should seek the support of donors to provide extended financial support to KEMLEIC members who are engaged in the export business. It is imperative to note that making livestock industry more efficient will result in reducing post-harvest losses of up to 50% and meet domestic demand.

- **Implication:** Closure of businesses and working from home
  The directive to close businesses in towns will affect the income of slaughterhouses and butcheries which is a source of income and employment for a number people in major and small towns across the country. Additionally, slow-down in market activities and reduced consumption because of the 'stay-at-home' directive will reduce the income of these small businesses.

  Mitigation: County and national government should allow for structured operations of the live animal market and enforce hygiene standards at slaughter slabs and slaughterhouses. In the worst-case scenario (full-blown case), development partners could support off-take programmes and use licensed butcheries as distribution points to consumers.

- **Implication:** Changing meat-buying behaviour
  Because of the 'stay-at-home' directive, there has been observable behaviour change among urban consumers; more consumers are now buying their meat from supermarkets. However, there is a potential of product shortage if flows from production is constrained. The change in purchasing behaviours presents an opportunity to both processors and supermarkets to redefine their approach to meat retailing. Additionally, for the processors who are in export business, their businesses would be impacted as explained in the KEMLEIC case.

  Mitigation: County and National government to ensure structured flow of live animals and carcasses to the market. To protect jobs and supply of products, development partners in the livestock space should consider providing a stimulus package to processors to enable them to continue with business. Under close supervision, the government could allow direct purchase of meat from the pastoralists to continue supplying the supermarkets.

Agricultural Inputs

Farming in Kenya generates 30 per cent of Kenya's GDP, with over 75 per cent of the rural population deriving their main source of income from it.

The COVID-19 pandemic has occurred during a critical period in the agricultural cycle, the planting season, which coincides with the on-set of the March-April-May long rains. Additionally, with the average age of the Kenyan farmer at 60 years, and going by the emerging infection prevalence data from affected countries, the impact of a full-blown outbreak to agriculture cannot be underestimated to this demographic.

- **Implication:** The closure of fresh produce markets is likely to affect Incomes and livelihoods of millions of small holder farmers
  Most famers sell fresh produce to purchase agricultural inputs. Therefore, the closure of markets or even its slowdown will have an impact on farmers' incomes. Additionally, this period is normally a busy period with inputs companies undertaking promotional and educational events to farmers; the directive to avoid public gatherings will hinder the ability of farmers to access farming information. This could further translate to potential job losses for Field Officers who may not be able to meet farmers as normal.

  Mitigation: County governments to allow structured operations of the market with proper fumigation and promotion of good hygiene practices. Development partners should find ways of putting stimulus packages into larger producers to protect jobs and sustain supply of products. Additionally, the development partners through budgetary support, can supplement the government's e-voucher programme for distribution of key agricultural inputs, in case the situation worsens.

- **Implication:** Adverse impact on thousands of agro-dealers who play a critical role in Kenyan agriculture
  Government recognises the role of agro-dealers in providing extension services to farmers. Kenya is dotted with over 10,000 agro-dealers that employ thousands of individuals. The impact of the slowdown in the economy to these enterprises should not be underestimated. With closure of businesses as witnessed in Eldoret on March 23, 2020, sales volumes will reduce drastically and the probability of job losses remains high.

  Mitigation: Due to the onset of the long rain season and the planting cycle, and the critical need to protect future agricultural production, the government should allow for structured operations of the agrovets and exclude these enterprises from complete closure by considering agro-dealers to be essential services. Although the National Treasury and the Central Bank have provided guidelines on loan repayment, it might be useful for development partners to work alongside representatives from the private sector to develop viable guarantee instruments for such enterprises.

- **Implication**: Importation of fertilizer and other agricultural inputs
  Slow-down in economic growth might have an impact on the importers of fertilisers in terms of their access to credit and reduced equity. Similarly, a continued strain on producing countries such as Saudi Arabia and Morocco may affect availability of fertiliser during the October 2020 season. Further, restrictions on inbound flights and potential restrictions on movement of goods/supplies in the country may further hamper access to agricultural inputs by farmers. This will ultimately result in farmers' not having access to inputs on time, uncompetitive price and inadequate quantities, and which may result in the mushrooming of counterfeits to counter the supply deficit.

  Mitigation:
  If the scenario continues, the manufacturers should work closely with relevant government agencies to develop online/digital farmer education programmes to be aired on television, radio station and messages shared on phones through SMS. Development partners can support such venture by providing technical and financial support in designing the programme.

- **Implication:** Critical extension services hampered
  Because of slow movement of people and a ban on congregation of people, extension services, information and training provided by manufacturers of products will be largely hampered. This would mean farmers will be undertaking their farming activities with minimal good agricultural practices and hence resulting in low productivity, affecting availability of food beyond the coronavirus crisis.

  Mitigation: If the scenario continues, the manufacturers should work closely with relevant government agencies to develop farmer education programmes to be aired on television and radio stations. Government can work closely with other stakeholder to upscale agritech and mobile enabled services. Additionally, development partners should consider supporting the government to provide technical and financial support in designing the relevant programmes.

- **Implication:** Food Security
  The threat to food security from the recent locust invasion has been compounded by the COVID-19 outbreak. It is already estimated by IGAD and the UN that the East Africa region will witness reduced yields as a result of the locust invasion. If we get into full-blown COVID-19 crisis, and if no mitigation measures are put in place, it is likely that the yield from the March-April-May season will be substantially reduced and thereby increasing the risk of a food security crisis. Further with Kenya being a net importer of food and with reduced productivity globally, exporting

nations might focus on feeding their populace as a priority over exports in cases where they may not have surplus.

Mitigation: As earlier proposed, government should facilitate farmers access to necessary agricultural inputs, even in this crisis to ensure that farmers take advantage of the long rains to grow their produce. Further, Government should aim to increase the national strategic reserve and prepare a contingency plan that would involve distribution of food to most affected counties should the need arise. Development partners too can support initiative such as food for work and food for cash either through budgetary support or design targeted programme.

- **Implication:** Impact to horticulture and floriculture
  Horticulture and floriculture have been significantly affected and indeed these two sub-sectors employ over 200,000 people directly and support close to 4 million livelihoods through auxiliary services. Further, we have witnessed how the largest flower auction that has been in existence for more than 100 years in the Netherlands has been affected by the crisis.

  Mitigation: Due to global nature of these supply chains the response would be multifaceted. Kenya government and relevant stakeholder should find ways of protecting the sector from complete shut-down in the short-term period. At the same time spur local consumption since our traditional export markets are also in lock down. In the medium to long term the government and relevant stakeholders should establish direct linkages with the super markets in Europe to help the sector.

- **Implication:** Disruption of the regional food supply chain
  Kenya is a key regional transport hub and transit of goods for Uganda, Rwanda and Burundi with Uganda being the biggest transit destination for cargo imported through Mombasa. The national response to COVID-19 by Uganda, Kenya and Rwanda has potential to disrupt the food supply chain and create a shortage of food within the region.

  Mitigation: The knee jerk reaction by each state to protect its population from COVID-19 has to be evaluated to minimise such disruption to the food supply chain. Additionally, the member state should develop a wider framework that would protect the movement of goods across the borders. Kenya has to find ways to safeguard her interest as a regional transport hub and collaborate with other member states to promote seamless logistic for good from the Mombasa port.

Water Sector

Water is a key resource in agriculture, energy, extractive industries, alongside its usage at the household level for socio-economic activities. The water supply sub-sector contributes approximately 0.7 per cent of Kenya's GDP, and directly employs over 200,000 people.

Currently, around 42 per cent of Kenyans cannot access clean, piped water. Lack of access increases purchasing costs up to 6-fold. Water is an enabler of the Big Four Agenda and is one of the key targets under Sustainable Development Goal no. 6.

Water continues to play a major role in mitigating the spread of coronavirus through effective handwashing. However, it is imperative to note that Kenya's water coverage stands at 58 per cent and there is regional disparity in water access.

- **Implication:** Operations of water utilities
  The 88 licensed water companies employ over 22,000 people and generate over KES 21 billion annually. This contribution is at risk because of the inability of businesses and consumers to pay for water services with the current slowdown in operations. Further, despite the 'stay-at-home' directive, several employees of these utilities are still fully at work providing critical services.

  Mitigation: Both levels of government to take over some operational costs related to provision of water services from the utilities. These can include electricity and chemical costs. Additionally, the government should ease tax payment on these utilities to free up more resources to provide these essential services. Development partners can provide budgetary support to government to fill the gap created by tax concessions.

- **Implication:** Lack of access to clean and safe water
  As mentioned above, numerous locations do not have access to clean and safe drinking water. The implication would be competition between handwashing and other water uses such as drinking, cooking and bathing. As we have witnessed in Nairobi's informal settlements, residents have registered their desire to wash their hands but at the same time indicated the unavailability of the commodity.

  Mitigation: Through existing water utilities, the government with support of development partners should embark on providing water through water bowsers and perhaps investing in additional water infrastructure such as boreholes in strategic locations. The development partners can influence entities such as Water Sector Trust Fund to redirect some of its resources to such initiatives. Since most households suffer from low storage, the government and development partners should develop mechanisms that would allow for the distribution of water storage tanks to underserved consumers.

- **Implication:** Access to water treatment and purification components

  Continued production of aluminium sulphate, chlorine and soda ash is very critical in sustaining delivery of clean and safe drinking water. Therefore, any lock down of companies that produce such products will have huge ramifications to the sector.

  Mitigation: The government should find ways to allow the manufacturers of these products to continue working even in cases of complete lockdown. In a worst-case scenario, the government should find ways of delivering these products to water utilities from the production unit.

Conclusion

In responding to the impact of COVID-19, development partners need to be cautious to avoid a scenario of interventions that could undermine the fundamentals of markets but deploy a mix of tools that will enhance household resilience and promote the effective revitalization of the markets once the crisis is over.

Nevertheless, striking the optimal balance during such a pandemic situation remains an uphill task. Support should be provided to stimulate the market in both supply and demand.

On the demand side, the development partners should build upon existing government programmes of putting money into consumers' pockets. Such programmes include Inua Jamii, Hunger Safety Network and the e-voucher for agricultural inputs.

On the supply side, development partners should consider supporting small and medium sized enterprises to ensure business continuity and availability of goods and services to consumers. This would ensure the supply chain is not hugely disrupted, that jobs are protected and continuity post-COVID-19 is assured.